HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Kitchener and Guelph CMAs

CANADA MORTGAGE AND HOUSING CORPORATION

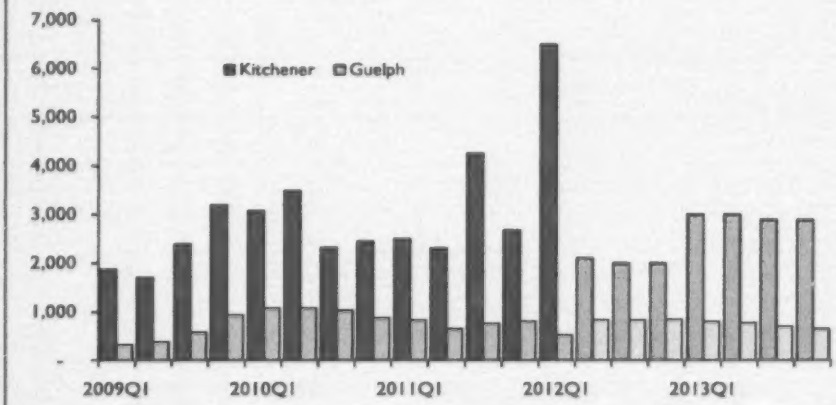
Date Released: Spring 2012

Market at a Glance

- Existing homes sales will increase slightly in 2012, but decline in 2013 as mortgage market conditions become less accommodating
- New listings will remain high and the market balanced through 2012 and into 2013 in KW
- New home construction will increase in 2012 due to strong apartment construction
- Low mortgage rates and population and employment growth will support housing demand

Figure 1

Housing Starts Higher in 2012



Source: CMHC forecasts

* The forecasts included in this document are based on information available as of April 27, 2012.

Table of Contents

1 Market at a Glance

2 Resale Market

3 New Homes Market

4 Local Economy

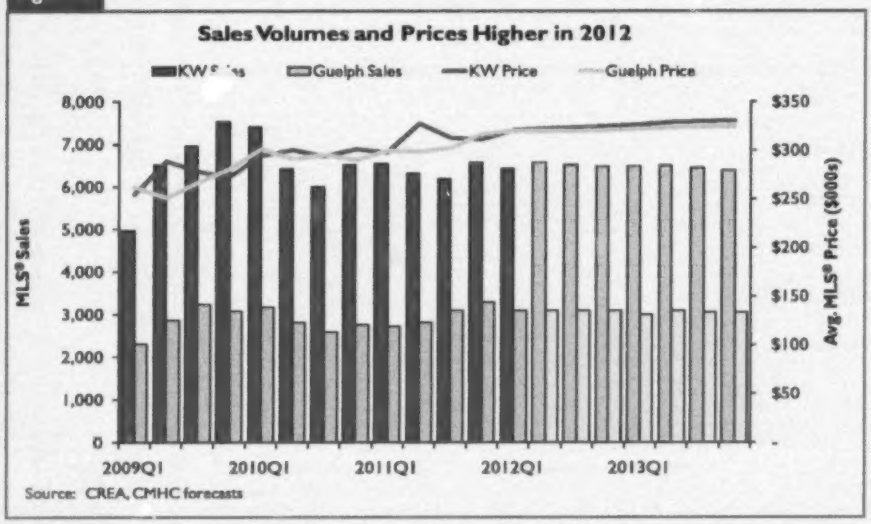
5 Mortgage Rate Outlook

6 Forecast Summary

SUBSCRIBE NOW!

Access CMHC's Market Analysis Centre publications quickly and conveniently on the Order Desk at www.cmhc.ca/housingmarketinformation. View, print, download or subscribe to get market information e-mailed to you on the day it is released. CMHC's electronic suite of national standardized products is available for free.

Figure 2



Source: CREA, CMHC forecasts

Resale Homes Market

Sales slightly higher in 2012

The resale home market will be relatively stable through 2012. The most important determinants for ownership demand, mortgage rates and employment, are expected to remain almost unchanged in 2012 while population growth through in-migration will support housing demand. Mortgage rates will remain low, keeping homes relatively affordable and supporting demand from both repeat and first-time buyers. Mild winter weather and lower mortgage rates started the spring buying season early. Existing home sales will decline slightly from current levels in the second half of the year as rising house prices will cause some potential homebuyers to reconsider their plans. Overall, sales of existing homes sold through the Kitchener-Waterloo Association of Realtors® will increase 1.5 per cent in 2012, while sales through the Guelph and District Association of Realtors® will move higher by four per cent. The modest pace of economic growth, global financial uncertainty and less accommodating mortgage market conditions will temper gains in 2013.

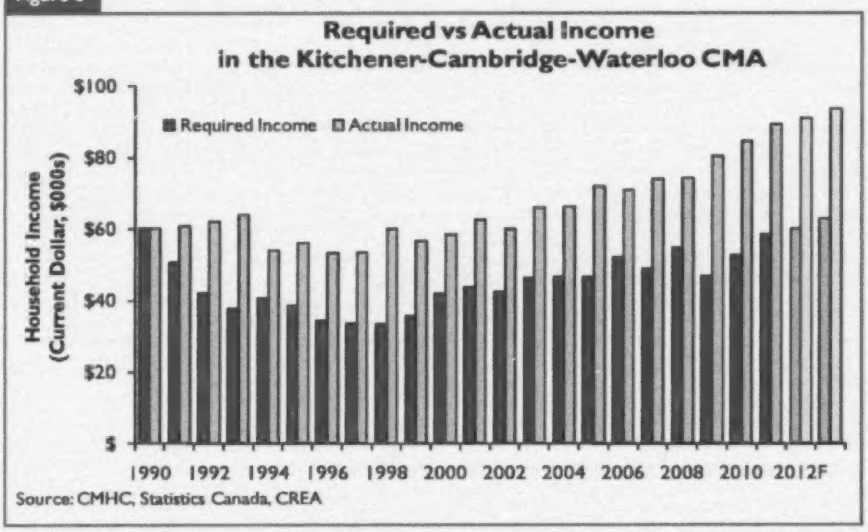
Repeat buyer demand supports resale market

Home ownership demand will come mainly from repeat buyers through most of 2012. Rising prices, low mortgage rates and limited construction of new detached homes will continue to support repeat buyer demand. Repeat buyers, who have built up equity in their homes, will take advantage of the low mortgage rates and larger down payments to move into a home more suited to their current needs. The population growth in the move-up buyer age category will support repeat buyer demand. With limited choice in the new home market, especially for detached homes, move-up buyers, who have historically favoured new homes, are looking to the resale market to find a suitable home.

First-time buyers wait

First-time buyer demand as a percentage of all sales has declined. Tightened mortgage rules and prices outpacing income growth have worked to delay many renter households from making the move

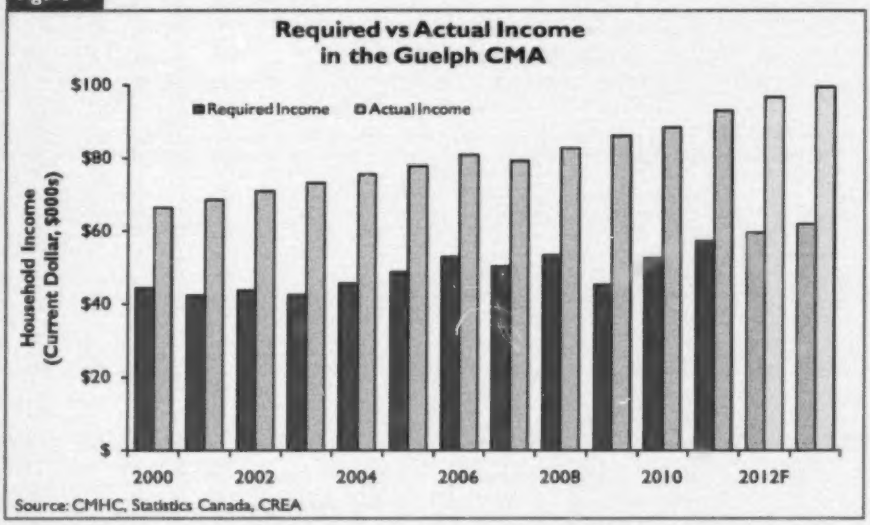
Figure 3



Source: CMHC, Statistics Canada, CREA

*Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 per cent gross debt service ratio. Mortgage carrying costs are calculated based on 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization for a mortgage loan.

Figure 4



* Required Income is mortgage carrying costs divided by 0.32 to reflect the usual 32 per cent gross debt service ratio. Mortgage carrying costs are calculated on 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization for a mortgage loan.

to homeownership. The low vacancy rate in both KCW and Guelph are an indication that renter households are staying in their current home. With a build up of some pent-up demand and the anticipation of expected mortgage rate increases, some first-time buyers will consider entering the market again in early 2013. Employment gains among households aged 25-44 and the growing echo boom population will support first-time buyer demand.

Listings to grow slightly

New listings will remain at the current level, but growth will be limited in both KW and Guelph in 2012. KCW has a high number of migrants, both in and out, which increases housing activity. Both the stock of existing homes and the population are increasing and new listings will also increase at a similar rate. As a proportion of ownership housing stock, new listings have stabilized a little above eight per cent since 2004. However, with a lower number of completions of detached homes, fewer homeowners will be listing their home for sale to move to a newly completed home. In Guelph, listings have begun to trend lower. With a very low level of new single-detached construction, there is little choice for move-up buyers, so many are staying in their current home and renovating.

Price growth to slow

Prices continued to trend higher, but are still somewhat volatile. Demand for higher-end homes led to an increase in the overall average price early in 2012.

For 2012, the resale market in KW will be balanced. Prices increased in the first quarter due to a higher proportion of repeat buyers buying more expensive single-detached homes. For the rest of 2012, price growth will be subdued. An increase in first-time buyers, who usually buy lower-priced townhomes and apartments, will put downward pressure on the growth in average price early in 2013. Also, with a balanced resale market and fewer bidding wars in KW, there will be more time for potential buyers to shop around for a suitable home which will result in slower price growth. Overall, price growth in KW in 2012 is expected to be close to three per cent. The Guelph resale market will favour sellers in 2012 and price growth is expected to be closer to five per cent.

New Homes Market

KCW starts to increase

While housing starts in the Kitchener-Cambridge-Waterloo (KCW) Census Metropolitan Area (CMA) will increase in 2012, starts in Guelph will decline slightly. More choice in the resale markets, slower job growth, modest growth in discretionary spending, and higher prices will create headwinds for new home construction moving forward. A low level of registered lots in some KCW municipalities and in the City of Guelph will limit new single-detached construction in 2012. Both rental and condominium apartment starts will raise total starts in KCW, while fewer apartments will pull down total starts in Guelph.

Higher-density housing has been trending up in KCW over the past two years. This is in line with requirements to build more housing in built-up areas in both the Region of Waterloo Official Plan and Places to Grow. Demand from students, young adult households, immigrants

and downsizing baby boomers will support the increase in apartment starts. Incentives for brownfield redevelopment will also support higher-density housing. Apartment starts will be up in 2012 and contribute to the growth in total starts. KCW housing starts will decline slightly in 2013 due to fewer apartment starts.

In KCW, single-detached starts are trending lower and as a share of total starts have fallen. Fewer registered lots available for single-detached construction will factor into the decline in detached starts. But, with new lots expected to be available for registration later this year in the City of Waterloo and the prospects of stronger income and job growth, detached starts will be stronger by year end and into 2013.

Guelph starts slip

In Guelph, housing starts are forecast to decline marginally in 2012 and 2013. With fewer lots registered in the City of Guelph in 2011, housing construction will slow in 2012. In 2011, the City of Guelph actually registered less than 400 of the 1,100 lots included in the 2011 Development Priorities Plan. The city has announced plans to register more than 1,100 units in 2012. If it meets this target, housing construction will pick up in the second half of 2012 and into 2013. The lack of supply of new single-detached homes has pushed new homebuyers to look to options in the resale market or new homes outside the CMA. The lower level of apartment construction in 2012 will also be a drag on the level of housing starts. Although the Guelph CMA is part of Places to Grow, higher-density housing construction has not occurred at the same rate as in KCW.

Local Economy

Employment growth continues

Employment is one of the key demand factors for housing. Changes in employment levels impact the housing markets six to nine months later. Employment growth in the first quarter of 2012 in KCW will support housing demand later this year. Although employment in Guelph slipped in the first quarter, overall growth of close to ten per cent in the past year will support demand for housing. But, overall employment growth will slow in 2012, increasing by less than one per cent in both KCW and Guelph. Employment growth will be slightly stronger in 2013.

In KCW, employment has increased for all age groups, 15-24, 25-44 and 45-64, in the past year. This will translate into increased demand for both rental and ownership housing. In Guelph, only the 25-44 year-old age group had increased employment.

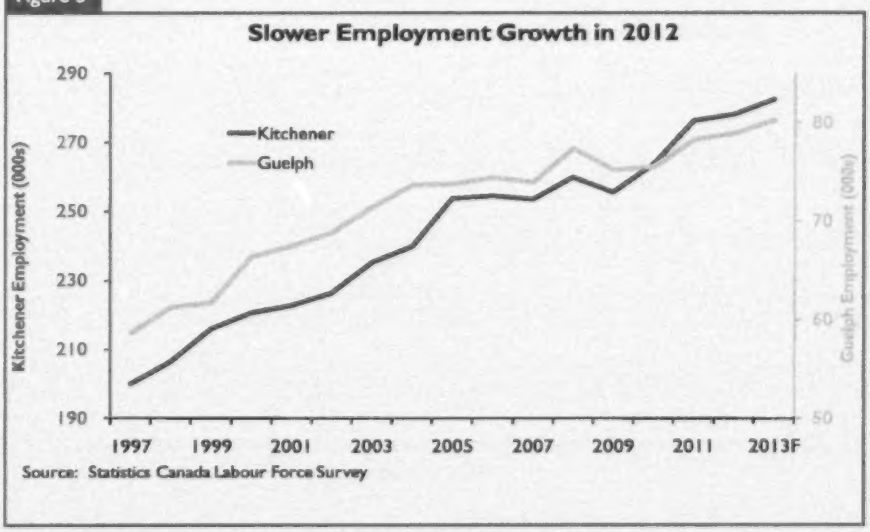
KCW and Guelph both have diverse economies. In KCW, the services sector is behind the recent growth in employment, but in Guelph, employment in both the goods-producing and services sector is growing. Manufacturing jobs most recently peaked in 2011, but well below the level in 2004, and are now trending slightly lower. The high level of residential units under construction in KCW will support employment in the construction trades.

Growth in full-time employment will support wage increases at or above the rate of inflation. Average weekly earnings in KCW have moved lower over the last six months, and for 2012 growth will keep up with inflation. In Guelph, earnings have continued to trend higher and wage growth above four per cent is expected.

Population growth slows

Population growth slowed in both CMAs when comparing 2001-2006

Figure 5



and 2006-2011. This slower population growth in the past five years resulted in lower housing demand and fewer starts.

In both CMAs, the percentage of the population wanting to work and the percentage finding work are above the Ontario average. The strong labour market means this area will continue to attract migrants. In fact, migration accounts for about 50 per cent of population growth. Migration is expected to average close to 3,000 per year for the next two years in KCW and nearly 1,200 in Guelph. If the same rate of population growth and household formation continues for the next five years, there will be approximately 12,000 more new households in KCW than there are today and about 3,700 in Guelph.

Mortgage Rate Outlook

CMHC uses publically available information and the consensus among major Canadian forecasters as a basis for its interest rate forecast. Although there is significant uncertainty, consensus forecasts suggest that interest rates are not expected to rise until at least later in 2012, but will remain low by historical standards, thus supporting the Canadian housing market.

According to CMHC's base case scenario, posted mortgage rates will increase near the end of 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.1 to 3.6 per cent range, while the five-year posted mortgage rate is forecast to be within 5.0 to 5.4 per cent. For 2013, the one-year posted mortgage rate is expected to rise with interest rates and be in the 3.5 to 4.1 per cent range, while the five-year posted mortgage rate is forecast to be within 5.1 to 5.6 per cent.

Forecast Summary
Kitchener-Cambridge-Waterloo CMA
Spring 2012

	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	6,495	6,589	6,406	6,500	1.5	6,450	-0.8
MLS® New Listings	10,118	10,649	10,891	11,500	5.6	11,500	0.0
MLS® Average Price ($)	274,803	297,818	312,305	323,000	3.4	329,000	1.9
New Home Market							
Starts:							
Single-Detached	1,161	1,255	1,186	1,100	-7.3	1,200	9.1
Multiples	1,137	1,560	1,768	2,040	15.4	1,740	-14.7
Semi-Detached	62	94	38	40	5.3	40	0.0
Row/Townhouse	565	498	286	300	4.9	300	0.0
Apartments	510	968	1,444	1,700	17.7	1,400	-17.6
Starts - Total	2,298	2,815	2,954	3,140	6.3	2,940	-6.4
Average Price ($):							
Single-Detached	345,289	378,811	394,169	415,000	5.3	430,000	3.6
New Housing Price Index (% chg.)	0.6	1.3	2.9	3.0	-	3.0	-
Rental Market							
October Vacancy Rate (%)	3.3	2.6	1.7	2.0	0.3	2.2	0.2
Two-bedroom Average Rent (October) ($)	856	872	889	916	-	935	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	255,400	263,700	276,100	278,000	0.7	282,500	1.6
Employment Growth (%)	-1.7	3.2	4.7	0.7	-	1.6	-
Unemployment rate (%)	9.5	8.0	6.8	6.7	-	6.6	-
Net Migration	2,533	3,087	2,862	3,000	4.8	3,000	0.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

** Percent change > 200%

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

Forecast Summary Guelph CMA Spring 2012	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	2,878	2,834	2,982	3,100	4.0	3,050	-1.6
MLS® New Listings	4,456	4,542	4,507	4,600	2.1	4,650	1.1
MLS® Average Price ($)	265,799	295,207	305,100	320,000	4.9	324,000	1.3
New Home Market							
Starts:							
Single-Detached	299	406	260	300	15.4	325	8.3
Multiples	268	615	504	460	-8.7	400	-13.0
Semi-Detached	74	34	50	60	20.0	50	-16.7
Row/Townhouse	124	391	197	250	26.9	200	-20.0
Apartments	70	190	257	150	-41.6	150	0.0
Starts - Total	567	1,021	764	760	-0.5	725	-4.6
Average Price ($):							
Single-Detached	367,011	385,227	436,502	450,000	3.1	460,000	2.2
New Housing Price Index (% chg.) (Ont.)	0.1	2.4	3.6	n.a.	-	n.a.	-
Rental Market							
October Vacancy Rate (%)	4.1	3.4	1.1	1.2	0.1	1.4	0.2
Two-bedroom Average Rent (October) ($)	874	887	903	930	-	950	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	75,300	75,500	78,300	78,900	0.8	80,300	1.8
Employment Growth (%)	-2.7	0.3	3.7	0.8	-	1.8	-
Unemployment rate (%)	8.3	7.9	5.6	5.5	-	5.4	-
Net Migration	858	1,284	1,230	1,200	-2.4	1,200	0.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

** Percent change > 200%

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

CMHC—HOME TO CANADIANS

Canada Mortgage and Housing Corporation (CMHC) has been Canada's national housing agency for more than 65 years.

Together with other housing stakeholders, we help ensure that the Canadian housing system remains one of the best in the world. We are committed to helping Canadians access a wide choice of quality, environmentally sustainable and affordable housing solutions that will continue to create vibrant and healthy communities and cities across the country.

For more information, visit our website at www.cmhc.ca

You can also reach us by phone at 1-800-668-2642 or by fax at 1-800-245-9274.
Outside Canada call 613-748-2003 or fax to 613-748-2016.

Canada Mortgage and Housing Corporation supports the Government of Canada policy on access to information for people with disabilities. If you wish to obtain this publication in alternative formats, call 1-800-668-2642.

The Market Analysis Centre's (MAC) electronic suite of national standardized products is available for free on CMHC's website. You can view, print, download or subscribe to future editions and get market information e-mailed automatically to you the same day it is released. It's quick and convenient! Go to www.cmhc.ca/housingmarketinformation

For more information on MAC and the wealth of housing market information available to you, visit us today at www.cmhc.ca/housingmarketinformation

To subscribe to priced, printed editions of MAC publications, call 1-800-668-2642.

©2012 Canada Mortgage and Housing Corporation. All rights reserved. CMHC grants reasonable rights of use of this publication's content solely for personal, corporate or public policy research, and educational purposes. This permission consists of the right to use the content for general reference purposes in written analyses and in the reporting of results, conclusions, and forecasts including the citation of limited amounts of supporting data extracted from this publication. Reasonable and limited rights of use are also permitted in commercial publications subject to the above criteria, and CMHC's right to request that such use be discontinued for any reason.

Any use of the publication's content must include the source of the information, including statistical data, acknowledged as follows:

Source: CMHC (or "Adapted from CMHC," if appropriate), name of product, year and date of publication issue.

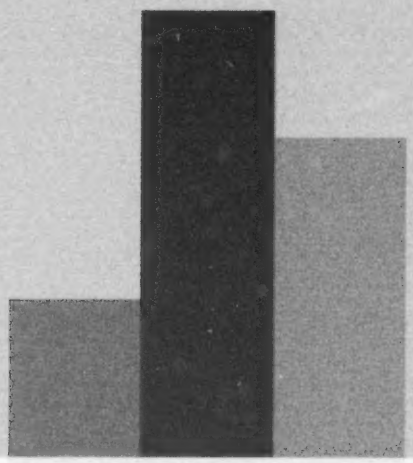
Other than as outlined above, the content of the publication cannot be reproduced or transmitted to any person or, if acquired by an organization, to users outside the organization. Placing the publication, in whole or part, on a website accessible to the public or on any website accessible to persons not directly employed by the organization is not permitted. To use the content of any CMHC Market Analysis publication for any purpose other than the general reference purposes set out above or to request permission to reproduce large portions of, or entire CMHC Market Analysis publications, please contact: the Canadian Housing Information Centre (CHIC) at chic@cmhc.ca; 613-748-2367 or 1-800-668-2642.

For permission, please provide CHIC with the following information:
Publication's name, year and date of issue.

Without limiting the generality of the foregoing, no portion of the content may be translated from English or French into any other language without the prior written permission of Canada Mortgage and Housing Corporation.

The information, analyses and opinions contained in this publication are based on various sources believed to be reliable, but their accuracy cannot be guaranteed. The information, analyses and opinions shall not be taken as representations for which Canada Mortgage and Housing Corporation or any of its employees shall incur responsibility.

Housing market intelligence you can count on



FREE REPORTS AVAILABLE ON-LINE

- Canadian Housing Statistics
- Housing Information Monthly
- Housing Market Outlook, Canada
- Housing Market Outlook, Highlight Reports – Canada and Regional
- Housing Market Outlook, Major Centres
- Housing Market Tables: Selected South Central Ontario Centres
- Housing Now, Canada
- Housing Now, Major Centres
- Housing Now, Regional
- Monthly Housing Statistics
- Northern Housing Outlook Report
- Preliminary Housing Start Data
- Renovation and Home Purchase Report
- Rental Market Provincial Highlight Reports *Now semi-annual!*
- Rental Market Reports, Major Centres
- Rental Market Statistics *Now semi-annual!*
- Residential Construction Digest, Prairie Centres
- Seniors' Housing Reports

Get the market intelligence you need today!

Click www.cmhc.ca/housingmarketinformation to view, download or subscribe.

CMHC's Market Analysis Centre e-reports provide a wealth of detailed local, provincial, regional and national market information.

- **Forecasts and Analysis –** Future-oriented information about local, regional and national housing trends.
- **Statistics and Data –** Information on current housing market activities — starts, rents, vacancy rates and much more.

Are you interested in housing research?

Stay up-to-date with the latest housing research findings and events related to sustainable housing and communities, housing conditions and trends, housing finance and more.

Subscribe Today to CMHC's Housing Research E-Newsletter!

64323_2012_B01